

Message Text

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INFO AMEMBASSY BONN
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USEC

E.O. 11652: NA
TAGS: EFIN, OECD, JA
SUBJECT: JAPAN'S CURRENT ACCOUNT SURPLUS REDUCTION
PROGRAM
REF: (A) TOKYO 7098, (B) TOKYO 07439

1. SUMMARY: THREE POINT PROGRAM ANNOUNCED APRIL 21 TO
REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS IS OBVIOUSLY POINTED
AT UP-COMING FUKUDA VISIT TO WASHINGTON AND AIMS AT DEMON-
STRATING THAT JAPAN IS TAKING PRACTICAL STEPS TO ATTACK
PROBLEM. MOST MEASURES PROPOSED ARE STEPS IN RIGHT DIREC-
TION, BUT WILL REQUIRE STUDY AND BUILDING OF CONSENSUS BE-
FORE THEY ARE FULLY IMPLEMENTED. EMBASSY COMMENTS KEYED
TO TEXT OF PROGRAM TRANSMITTED IN REFERENCE B FOLLOW.
END SUMMARY.

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2. PART I (1): THE ADJUSTMENTS TO THE FOREIGN CURRENCY
LENDING PROGRAM OF JAPAN EXIMBANK APPEAR TO HAVE GONE FAR
TOWARD REMOVING IMPEDIMENTS TO IMPLEMENTATION OF EARLIER
EMERGENCY IMPORT SCHEMES BECAUSE OF THE LACK OF ATTRACTIVE-
NESS OF THE EXIM FACILITY. TEN-YEAR, FIXED INTEREST DOLLAR
FINANCING AT 6 PERCENT REPRESENTS EXTREMELY ATTRACTIVE
TERMS IN TODAY'S MARKET. EMERGENCY IMPORT SCHEMES WHICH
REPRESENT LONG TERM COMMITMENTS SUCH AS THE PROPOSED PRE-
PAYMENT FOR URANIUM ENRICHMENT SERVICES OR THE AIRCRAFT
PURCHASE/LEASE PROPOSAL SHOULD BENEFIT MOST FROM THE RE-

VISIONS. IT IS UNDERSTOOD THAT THE URANIUM ENRICHMENT SERVICES PREPAYMENT PLAN, IF IT OTHERWISE GAINS APPROVAL, WOULD BE FINANCED THROUGH THE EXIMBANK PROGRAM. THE EXIM BUDGET FOR JFY 1978 INCLUDES \$400 MILLION FOR THIS PROGRAM, BUT THIS LIMIT CAN BE ADMINISTRATIVELY INCREASED. EXIM LENDING PROGRAMS ARE PART OF THE FISCAL LOAN AND INVESTMENT PROGRAM AND THE GOVERNMENT HAS STANDING AUTHORITY TO INCREASE MOST OF THESE PROGRAMS BY 50 PERCENT WITHOUT FURTHER DIET AUTHORIZATION. IN PRINCIPLE, A 50 PERCENT INCREASE IN ALMOST THE ENTIRE FLIP JFY 78 BUDGET OF 14.9 TRILLION YEN (\$66 BILLION) COULD BE USED TO FINANCE EMERGENCY IMPORTS. SINCE THE FOREIGN CURRENCY FINANCING COMES FROM THE OFFICIAL RESERVES RATHER THAN DEPOSITS WITH TRUST FUND BUREAU ACCOUNTS, THERE SHOULD BE NO PROBLEM WITH EITHER A SHORTAGE OF REVENUE OR COMPETITION FROM OTHER FLIP PROGRAMS FOR USE OF THE FUNDS.

3. PART I (3): A NUMBER OF PROPOSALS HAVE BEEN MADE FOR STOCKPILING OF SUCH MATERIALS AS PETROLEUM AND METALS. MITI PLANS FOR A 10 MILLION KILOLITER GOVERNMENT OIL STOCKPILE (ABOUT 10 DAYS SUPPLY) APPEAR TO BE PROGRESSING, THOUGH HOW SOON THE EFFECTS WILL BE FELT IS LIMITED OFFICIAL USE
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UNCERTAIN. PLAN IS TO USE SURPLUS TANKERS PENDING CONSTRUCTION OF TANKS. LATTER WOULD HELP STIMULATE ECONOMY, AND IMPORTS OF ADDITIONAL OIL WILL HELP THE BALANCE OF PAYMENT SITUATION. CITING OF TANKS APPEARS TO BE THE MAIN OBSTACLE. ON METALS (ORES AND SEMI-PROCESSED), INDUSTRY HAS BEEN NEGATIVE, CITING MAINLY CONCERNS ABOUT STORAGE

SPACE AND CHARGES BECAUSE OF CONTINUING RECESSION.

4. PART I (4): THE TRANSPORT MINISTRY HAS CONFIRMED THAT IT WILL STUDY MEASURES TO BUY UP OUTMODED FOREIGN SHIPS TO BE DISMANTLED FOR SCRAP BY JAPAN'S BADLY UNDEREMPLOYED SHIPYARDS. THE GOJ HOPES THIS WILL BOTH REDUCE THE CURRENT ACCOUNT SURPLUS AND PROVIDE EMPLOYMENT, EVEN IF LIMITED, TO JAPAN'S DEPRESSED SHIPBUILDING SECTOR. NO FURTHER DETAILS ARE YET AVAILABLE, BUT A KEY QUESTION IS WHETHER OR NOT, GIVEN THE SEVERELY DEPRESSED PRICE OF SCRAP METAL, PROCEEDS OF ITS SALE WOULD BE SUFFICIENT TO COVER THE PURCHASE OF THE SHIPS AND THE LABOR COSTS OF THE PROPOSED PROGRAM.

5. PART II (ECONOMIC COOPERATION): THE EFFECT OF THE AID MEASURES PROPOSED COULD REDUCE JAPAN'S SURPLUS BY AS MUCH AS SEVERAL HUNDRED MILLION DOLLARS DURING 1978, PROVIDED THAT THE NEW POLICIES ARE CONSCIENTIOUSLY APPLIED. MUCH DEPENDS ON HOW EFFECTIVELY JAPAN'S PLEDGE TO UNTIE AID LEADS TO THE SHIFTING OF PROCUREMENT CONTRACTS TO SUPPLIERS FROM OTHER COUNTRIES, AND IT IS TOO EARLY EVEN FOR INFORMED SPECULATION ABOUT THIS. IF WE ASSUME THAT UNTYING IS

EFFECTIVE, AN INCREASE IN AID LEVELS WOULD HEIGHTEN THE EFFECT EXERTED ON THE BALANCE OF PAYMENTS BY UNTYING AID; BUT CERTAIN FACTORS WILL CONTINUE TO LIMIT DISBURSEMENT OF THE LOANS WHICH COMPRISE MOST JAPANESE AID. RECIPIENT COUNTRIES SOMETIMES MAY HESITATE TO UNDERTAKE PROJECTS WHICH MEAN NEW FINANCIAL BURDENS AND WHICH OFTEN MAY BE DELAYED IN IMPLEMENTATION BECAUSE OF PERSONNEL OR OTHER

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SHORTAGES. A MASSIVE INCREASE IN AID TOTALS MIGHT WELL REQUIRE AN INCREASE IN THE PROPORTION OF BORDERLINE PROJECTS AND A CONSEQUENT REDUCTION IN THE PROPORTION OF LOANS DISBURSED TO LOANS COMMITTED. WITH RESPECT TO JAPAN'S INCREASING HER CONTRIBUTIONS TO MULTILATERAL AGENCIES, HER INTEREST IN PAYING A LARGER SHARE OF TOTAL CONTRIBUTIONS UNDOUBTEDLY WILL BE WELCOMED, BUT THE PROCESS OF DECIDING WHOSE OBLIGATION SHOULD BE CORRESPONDINGLY REDUCED IS LIKELY TO TAKE SOME TIME.

6. PART II (3): INTERNATIONAL COMMODITY AGREEMENTS, APPEARS TO REFLECT A SOMEWHAT INCREASED WILLINGNESS ON JAPAN'S PART TO PARTICIPATE MORE FULLY IN AGREEMENTS AND TO RUN MORE RISKS THAT THEY WILL INCREASE PRICES. BECAUSE OF ITS ASEAN POLICY, JAPAN IS LESS RIGID IN ITS OPPOSITION TO INCREASE IN PRICES FOR SUCH PRODUCTS AS TIN AND RUBBER. AT PRESENT, HOWEVER, IT SUPPORTS THE U.S. POSITION OPPOSING SUCH IN-

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CREASES. IT ALSO SUPPORTS THE U.S. POSITION ON A COMMON LIMITED OFFICIAL USE

FUND, ALTHOUGH IT IS CONSIDERING A CONTRIBUTION TO ADMINISTRATIVE COSTS. THIS WOULD PROBABLY BE MINIMAL, AND WOULD SEEM TO HAVE LITTLE RELEVANCE TO THE BALANCE OF PAYMENTS PROBLEMS.

7. PART III OUTLINES GOJ PROPOSALS TO PASS ON TO CONSUMER WINDFALL PROFITS ACCRUING TO JAPANESE IMPORTERS BECAUSE OF YEN APPRECIATION. PART III (1) ANNOUNCES ADMINISTRATIVE GUIDANCE FOR UTILITIES TO FREEZE RATES THROUGH JFY 1979. A MITI OFFICIAL CONFIRMED THAT THIS HAD BEEN DONE, BUT TOLD EMBOFF THAT GUIDANCE WAS SUBJECT TO CHANGE DEPENDING ON ECONOMIC CIRCUMSTANCES.

8. PART III (2): STUDY OF REDUCING PRICES OF IMPORTED CIGARETTES WILL BE UNLIKELY TO RESULT IN SIGNIFICANT REDUCTIONS UNLESS THE MONOPOLY IS PRODDERD ALONG THE WAY. THE CURRENT TOBACCO SYSTEM IS DESIGNED TO MINIMIZE CONSUMPTION OF FOREIGN TOBACCO PRODUCTS. WE HAVE HEARD A SUGGESTION HAS BEEN MADE FOR LEGISLATION TO REDUCE THE PRICE OF FOREIGN CIGARETTES FROM 260 YEN TO 250 YEN A PACK.

9. PART III (3) DIFFERENTIALS IN AIR FARES: A TRANSPORT MINISTRY SPOKESMAN HAS TOLD US THAT ANY ADJUSTMENTS WILL TAKE PLACE WITHIN THE EXISTING INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA) RATE SYSTEM. THE JCAB WILL SHORTLY APPROVE THE RECENT IATA AGREEMENT CALLING FOR A 6 SURCHARGE ON TRANS-PACIFIC DOLLAR-DENOMINATED TICKETS. ALTHOUGH THE JCAB WILL "STUDY" WHETHER THERE SHOULD NOT ALSO BE A PERCENTAGE DISCOUNT ON YEN TICKETS OR READJUSTMENT OF THE 296 YEN \$1 RATE USED BY IATA, THEY SAY NO ACTION WILL BE POSSIBLE BEFORE THE NEXT IATA RATE MEETING SCHEDULED FOR SEPTEMBER. THE MOT ACTION IS CHARACTERISTIC OF THE SEPTEMBER. THE MOT ACTION A) IS CHARACTERISTIC OF THE JCAB'S STRONG RELIANCE ON IATA AS A DECISION MAKER AND B) LIMITED OFFICIAL USE
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SUPPORTS JAPAN AIR LINES' CONTENTION THAT NO YEN ADJUSTMENT IS CALLED FOR SINCE THE REAL PROBLEM IS A WEAK DOLLAR, NOT A HIGH YEN.

10. PART III (4) PROMISES STUDIES OF INTERNATIONAL TELEPHONE AND TELEGRAPH CHARGES TO SEE IF REVISION OF THESE IS WARRANTED. THESE RATES, WHICH HAVE NOT BEEN CHANGED FOR MANY YEARS, HAVE BEEN ESTABLISHED AT 360 YEN TO ONE DOLLAR. JAPAN HAS NO INTERNATIONAL AGREEMENTS OUTSIDE THE ITU TO EQUALIZE RATES AND THE KDD, JAPAN'S TELECOMMUNICATIONS COMPANY, HAS POINTED OUT TO EMBOFFS THAT THE DOMESTIC COSTS OF PROVIDING INTERNATIONAL SERVICE HAS NOT DECREASED, AND SOME RATES MAY BE RAISED TO COVER INCREASING COSTS. AS RECENTLY AS A WEEK AGO, KDD PRESIDENT ITANO SAID KDD HAD NO INTENTION OF LOWERING RATES BECAUSE OF THE CHANGE IN THE YEN-DOLLAR RATE ALTHOUGH THE MATTER IS UNDER STUDY IN THE ITU.

11. PART III (5): THE LIVESTOCK MEASURES MENTIONED ALL SEEM TO REPRESENT WORTHWHILE STEPS TO REDUCE PRICES TO CONSUMERS AND THUS INCREASE DEMAND. NEW PLANS TO CUT OUT SOME OF THE EXPENSIVE STEPS IN CUMBERSOME DISTRIBUTION SYSTEMS SHOULD BE HELPFUL.

12. PART III (6) PETROLEUM PRODUCTS: THE INTERNATIONAL ENERGY AGENCY (IEA) RECOMMENDED HIGHER PRICES FOR KEROSENE AND OTHER PETROLEUM PRODUCTS. IT IS UNLIKELY THAT THE GOJ WILL AGREE, BUT MITI WILL PROBABLY NOT INSIST THAT KEROSENE PRICES BE REDUCED SINCE IT FORCED REFINERS NOT TO INCREASE THEM WHEN CRUDE PRICES WENT UP SEVERAL YEARS AGO. NAPHTHA PRICES HAVE BEEN REDUCED AND ADDITIONAL CUTS ARE BEING NEGOTIATED. THESE REDUCTIONS SHOULD HELP THE PETROCHEMICAL INDUSTRY RECOVER, BUT REFINERS ARE RESISTING FURTHER REDUCTIONS.

13. PART III (7) ON FEED GRAIN PRICES APPEARS MERELY TO

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RECORD THE 14.6 PERCENT PRICE DECREASE THAT HAS OCCURRED. APPRECIATION OF THE YEN ALONE WOULD HAVE JUSTIFIED AT LEAST A 20 PERCENT PRICE DECREASE. PRICES COULD GO DOWN MUCH FURTHER, AND, IF THEY DID, IT WOULD HELP THE GOJ TO REDUCE THE HIGH PRICE OF DOMESTIC BEEF AND DAIRY PRODUCTS.

14. PART III (8 AND 9) REFLECT A NEW GOJ DETERMINATION THAT IN SOME INSTANCES, WINDFALL IMPORT GAINS SHOULD BE PASSED ON TO CONSUMERS AS PRICE DECREASES. A MITI OFFICIAL

TOLD EMBOFF THAT MITI PRICE SURVEYS OF JUNE AND DECEMBER 1977 WILL BE COMPARED WITH PRESENT PRICES TO DETERMINE WHO, IF ANYONE, IS GAINING FROM YEN APPRECIATION. WITHOUT ADMITTING TO ADMINISTRATIVE GUIDANCE, HE SAID "IMPORTERS FOUND TO BE MAKING BIG PROFITS WILL PROBABLY BE CONTACTED BY US." IF NECESSARY, MITI WILL PUBLICIZE, ALONG PRODUCT LINES, THOSE IMPORTS ON WHICH CONSUMERS SHOULD EXPECT TO LIMITED OFFICIAL USE
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FIND LOWER PRICES, HE NOTED.

15. COMMENT: ACCORDING TO AN EPA SOURCE, THE PRICE MEASURES ANNOUNCED ON THE 21ST ARE A PREFACE TO A SERIES OF MORE AMBITIOUS AND CONCRETE POLICIES THAT ARE NOW IN VARIOUS STAGES OF PREPARATION. OF NINE PRICE MEASURES APPEARING UNDER SECTION THREE, THE FIRST FIVE REPRESENT EFFORTS BY THE GOVERNMENT TO RESPOND TO PUBLIC CRITICISM THAT IT HAS DONE LITTLE TO SET AN EXAMPLE BY ENSURING LOWER PRICES ARE PASSED FORWARD ON COMMODITIES OVER WHICH IT HAS DIRECT CONTROL. AGREEMENT TO PEG ELECTRIC POWER PRICES OVER TWO YEARS HAS ALREADY BEEN ACHIEVED. BUT, WHILE REDUCTIONS ON TOBACCO PRICES, AIR FARES, AND TO A LESSER EXTENT TELEGRAMS AND TELEPHONE CHARGES, IS EXPECTED; THERE IS CONSIDERABLE DOUBT THAT MUCH CAN BE DONE TO OVERCOME THE POWERFUL BEEF LOBBYISTS.

16. ITEMS 8 AND 9 FOCUS ATTENTION ON A SUBJECT THAT IS RECEIVING MORE ATTENTION BY PROMINENT ECONOMIC JOURNALISTS IN RECENT WEEKS; COMPETITION IN THE IMPORT MARKETS IS THE KEY TO RESTORING TRADE EQUILIBRIUM THROUGH THE EXCHANGE RATE. WE THINK PRICE CONSCIOUS ADMINISTRATORS IN THE GOVERNMENT AND ECONOMIC WRITERS AS WELL MAY INCREASE THE PRESSURE ON IMPORTERS, DISTRIBUTORS, DEALERS ETC. TO PASS ALONG BENEFITS OF THE REVALUATION. END COMMENT.
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